

Message Text

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FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC IMMEDIATE 8596

C O N F I D E N T I A L SECTION 1 OF 2 KATHMANDU 2466

FOR NEA DEPUTY ASSISTANT SECRETARY DUBS & COUNTRY DIRECTOR
KUX

E.O. 11652 GDS

TAGS: EAID, NP

SUBJ: AID FY 79 ABS

1. THE EMBASSY HAS HAD DETAILED DISCUSSIONS WITH AID ON ITS
FY 79 ABS. IT PROJECTS A FUNDING LEVEL FOR 79 OF \$37.5
MILLION FOR SUBSEQUENT FYS 80-83. ALTHOUGH NOT DDRESSED
DIRECTLY, THE ABS ASSUMES AN INCREASE IN DIRET HIRE AMERICAN
PERSONNEL FROM THE PRESENT CEILING OF 19 (2 OF WHICH ARE
CURRENTLY UNFILLED AND SUBJECT TO MODE APPROVAL) TO 23 BY ADDING
ONE IN FY 77, 2 IN FY 78 AND ONE MORE IN FY 79 AND AN INCREASE
OF 41 IN DIRECT HIRE LOCAL STAFF, 35 OF WHOM ARE PROPOSED TO BE
ADDED IN FY 77 AND SIX MORE IN FY 78. AN INCREASE IN AMERICAN
CONTRACT PERSONNEL IS ALSO PROJECTED FROM THE CURRENT 17 T 25
IN FY 78. HA VING REVIEWED THE ABS THE EMBASSY WISHES TO EXPRESS
A NUMBEROF RESERVATIONS NOT ONLY ON THE PROPOSED LEVELS, BUT
ALSO ON SPECIFIC ASPECTS OF THE PROPOSED DECISION PACKAGE.

2. OUR MAJOR RESERVATION ARISES FROM POLITICAL
AND POLICY CONSIDERATIONS AND PERTAINS TO BOTH THE DOLLAR
SIZE OF THE PROJECTED FY 79 PROGRAM AND THE PROJECTED
ADDITONAL PERSONNEL, BOTH NEPALESE AND AMERICAN. WE
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FULLY RECOGNIZE THE HUMANITARIAN AND AID POLICY INTERESTS
IN ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES, AND THERE
IS NO QUESTION THAT NEPAL IS AMONG THE MOST NEEDY IN THAT
CATEGORY. AT THE SAME TIME, HOWEVER, WE MUST BE COGNIZANT
OF THE COUNTRY'S LIMITED ABSORPTIVE CAPACITY AND FULLY
AWARE OF THE POLITICAL REALITY THAT OUR AID PROGRAM IS SEEN
IN NEPAL TO BE A DIRECT REFLECTION OF OUR COMMITMENT TO THE

COUNTRY'S ABILITY TO MAINTAIN ITS INDEPENDENCE AS OUR MOST RECENT POLICY AND RESOURCES ASSESSMENT (KATHMANDU 1218) NOTES, OUR INTERESTS IN NEPAL ARE CLEARLY LIMITED. HOWEVER, THE PROPOSED LEVEL OF \$37.5 MILLION WOULD UNDOUBTEDLY MAKE US THE LARGEST BILATERAL DONOR IN FY 79. ASSUMING THAT THE CHINESE SURKEHT-POKHARA ROAD PROJECT CONTINUES TO FLOUNDER, AND WITH DIRECT INDIAN AID CONTRIBUTINS LIKELYTO REMAIN AT CURRENT LEVELS OF 11-13 MILLION DOLLARS, A US AID LEVEL OF THE MAGNITUDE PROJECTED FOR FY 79 AND SUBSEQUENT YEARS WOULD PUT US IN THE FOREFRONT AMONG BILATERAL DONORS AND GIVE A HIGH PROFILE TO THE US COMMITMENT TO NEPAL.

3. OVER THE PAST THREE YEARS HMG HAS EXPRESSED INCREASING CONCERN OVER THE HIGH VISIBILITY AND LIFESTYLE OF FOREIGN AID TECHNICIANS. THIS HAS BEEN THE SUBJECT OF ARTICLES IN THE PRESS, WHICH WERE ACCCOMPANIED BY HMG EFFORTS TO CURTAIL SHARPLY BOTH THE NUMBERS OF FOREIGN AID TECHNICIANS AS WELL AS THE PRIVILEGES GRANTED TO THEM. PARTLY IN RESPONSE TO THESE HMG SENSITIVITIES, AS WELL AS TO IMPROVE COLLABORATION WITH HMG, AID INTEGRATED CONTRACTORS IMPLEMENTING AID-FUNDED PROJECTS MORE CLOSELY INTO HMG PROGRAMS, REQUIRING THEM, INTER ALIA, TO WORK AT HMG OFFICES AND ARRANGE FOR THEIR OWN SUPPORT SERVICES. PARTLY AS A CONSEQUENCE OF THIS REDUCED AID SUPPORT ROLE, THE AID MISSION WAS ABLE TO MAKE A SUBSTANTIAL REDUCTION IN LOCAL STAFF, REDUCING IT FROM 122DIRECT HIRE AND 208 CONTRACT EMPLOYEES IN 1974 TO 72 DIRECTHIRE AND 15PSC AT PRESENT. AMERICAN DIRECT HIRE STAFF WAS ALSO REDUCED FROM 34 POSITIONS IN MID 1974 TO THE 19 AUTHORIZED AT

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PRESENT.

4. THE EMBASSY BELEIVED THATTHE REASONSFOR THSESE DECISIONS WERE SOUND AND STRONGLY SUPPORTED THEM. WE CONSIDER THAT THE POLITICAL FACTORS ARGUING FOR A REDUCED STAFF REMAIN VALID. IN ADDITION, WE CONTINUE TO BELEIVE THAT THE MOST PRESSING OF NEPAL'S DEVELOPMENT PROBLEMS CAN BE EFFECTIVELY ADDRESSED BY A LEAN STAFF OF PRACTICAL FIELD MANAGERS AS HAS BEEN THE CASE IN THE LAST FEW YEARS. (IT IS PERTINENT TO NOTE THAT THE INDIANS ARE CURRENTLY MAKING SUBSTANTIAL REDUCTIONS IN THE PERSONNEL OF THEIR AID MISSION.).

5. IN THIS CONNECTION SEVERAL OF THE SPECIFIC RECOMMENDED POSITION INCREASES SEEM QUESTIONABLE. FIFTEEN OF THE NEW NEPALESE POSITIONS REQUESTED ARE MOTOR POOL MECHANICS. OF THESE, ONLY FOUR WERE EVER DIRECT HIRE AID EMPLOYEES. IF AS AID ARGUES, THERE IS A PROBLEMUNDER THE REGULATIONS CONCERNING THEIR CONTINUANCE UNDER A PERSONAL SERVICES CONTRACT, THEIR CONTINUED AVAILABILITY COULD SEEMINGLY BE ARRANGED FOR

UNDER A NON-PERSONAL SERVICES CONTRACT, IN THE SAME WAY
THE EMBASSY ARRANGES FOR MUCH OF ITS SUPPORT SERVICES. IN
ANY CASE, OUR UNDERSTANDINGS IS THAT THIS IS A LEGAL ISSUE
WHICH STILL HAS SEVERAL YEARS TO RUN BEFORE THE FIVE-YEAR
LIMIT IS REACHED, AND WE THEREFORE QUESTION THE NEED TO
ADD THESE PEOPLE AS DIRECT HIRE EMPLOYEES IN FY 77. THE
THREE REQUESTED POSITIONS FOR RURAL FIELD TREK SUPPORT ALSO
APPEAR QUESTIONABLE IN VIEW OF THE AVAILABILITY OF EXCELLENT
LOCAL COMMERCIAL FIELD TREK PLANNING AND SUPPORT FACILITIES,
WHICH HAVE FURNISHED ENTIRELY SATISFACTORY SERVICE TO THE
EMBASSY. THE REQUEST FOR THREE POSITIONS FOR MAINTENANCE
OF CONTRACTOR VEHICLES REPRESENTS A SERIOUS STEP BACKWARDS
FOR MAID'S PRIOR DECISION, WHICH WE BELIEVE WAS A CORRECT ONE,
TO CUT CONTRACTORS FREE OF AID SUPPORT ASERVICES, AND WE
SEE NO REASON TO REVERSE IT. WHILE KATHMANDU VEHICLE
MAINTENANCE FACILITIES ARE NOT UP TO U.S. STANDARDS,
AMERICAN WITH EMBASSY PATRONIZE THEM AND MANAGE
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TO KEEP THEIR VEHICLES OPERATIONAL. WE ALSO QUESTION
THE REQUESTED DIRECT HIRE OF 5 NEPALESE FOR "PROTECTIVE
ANALYSIS OF U.S. FINANCIAL INPUTS". IN SUCH A SERVICE
IS NEEDED, WE BELIEVE IT SHOULD BE PROVIDED BY AN AMERICAN
WHO WOULD BE IN A BETTER POSITION TO GUARD AGAINST POSSIBLE
REPETITION OF FINANCIAL AND OTHER IRREGULARITIES. WITH THE
SAME CONSIDERATION IN MIND, WE QUESTION THE REQUESTED ADDITION
OF A NEW NEPALESE PROFESSIONAL POSITION FOR GENERAL SERVICES
UNLESS HE WERE WORKING UNDER CLOSE AMERICAN SUPERVISION.

6. THERE ARE, HOWEVER, OTHER ASPECTS OF THE PROPOSED PROGRAM
WHICH WE WOULD QUESTION. THE \$4.2 MILLION PROPOSED FOR FAMILY
PLANNING POLICY RESEARCH STRIKES US AS EXACTLY THE KIND OF PROJECT WHO
SE

LONG TERM VALUES, WHILE NO DOUBT VALUABLE, ARE OUTWEIGHED BY THE
FACT THAT IT WILL TAKE YEARS BEFORE BENEFITS ACCURE TO THOSE PERSONS
WHOM AID IS COMMITTED TO ASSIST, I.E. THE RURAL POOR. THE ADDITIONAL
SECRETARY OF THE MINISTRY OF FINANCE RECENTLY DISCUSSED THIS PROJECT
WITH ME, EXPRESSING CONSIDERABLE SKEPTICISM THAT SUCH A
PROGRAM RANKED HIGH IN NEPAL'S PRESENT PRIORITIES. WE ALSO QUESTION
THE HIGH LOAD OF ADMINISTRATIVE AND CONSULTANCY COSTS BUILT INTO MANY
OF THE PROJECTS. WHILE WE RECOGNIZE THAT THESE COSTS WILL NECESSARILY
BE HIGH IN A COUNTRY WITH IMMENSE TRANSPORT AND COMMUNICATIONS
PROBLEMS, THE COST OF ITEMS SUCH AS AIRCRAFT RENTALS AND SUPPLY
OF 4-WHEEL VEHICLES SHOULD BE KEPT TO AN ABSOLUTE MINIMUM TO REMAIN
SONSONANT WITH OUR POLITICAL GOAL OF MAINTAINING A MODEST AID
PROFILE. WE NOTE IN THIS REGARD THAT THE RESOURCE CONSERVATION
AND UTILIZATION PROJECT CALLS FOR 3000 HOURS OF AIRCRAFT RENTAL

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FOR NEA DEPUTY ASSISTANT SECRETARY DUBS & COUNTRY DIRECTOR
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TIME WHICH AT CURRENT COSTS ACCOUNTS FOR NEARLY 10
PERCENT OF THE TOTAL PROJECT BUDGET. THE EDUCATION SKILLS TRAINING
PROGRAM HAS DEVELOPED INTO A SERIOUS COST OVERRUN FROM THE
AMOUNT AID NEPAL ORIGINALLY BUDGETED AND HAS RESULTED IN A TOTAL
AND RATHER STAGGERING BUDGET OF \$966,000 TO PROVIDE SOME 21
NEPALESE WITH MASTERS' DEGREES FROM THE UNIVERSITY OF CONNEC-
TICUT. ALTHOUGH NOT DIRECTLY ADDRESSED IN THE CURRENT ABS, WE
NOTE THAT \$1 MILLION IS REQUESTED AS AN ADD-ON TO THE CURRENT
INTEGRATED HEALTH SERVICES PROJECT FOR THE CONSTRUCTION OF
HOUSING FOR RURAL HRALTH WORKERSM IT HAS SEEMED LOGICAL TO US
TO ASK WHY THE VILLAGERS THEMSELVES CANNOT CONSTRUCT SIMPLE
HOUSING IF PROMISED A HEALTHE WORKER; IF THEY WILL NOT, HOW
REAL IS THE FELT NEED?

7. WE IN THE EMBASSY DO NOT HAVE THE TECHNICAL EXPERTISE
TO COMMENT IN DETAIL ON EVERY PROJECT NOR ON EVERY PROPOSED
PERSONNEL ADDITION. BUT WE DO QUESTION SOME OF THE
ASSUMPTIONS ON WHICH THE PROJECTS ARE BASED. WITH REFERENCE TO THE
PROPOSED \$12 MILLION RESOURCE CONSERVATION PROJECT WE DOUBT THE
GOVERNMENT'S ABILITY TO ENFORCE LAND USE AND FORESTRY AND
GRAZING LAWS WHERE CONSERVATION PRACICES WILL BE
INTRODUCED. PAST EXPERIENCE SUGGESTS A GREAT WEAKNESS IN BOTH
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CENTRAL AND LOCAL GOVERNMENT TO ADOPT, MUCH LESS ENFORCE, CONSERVATION PRACTICES IN RURAL AREAS. WE HAVE FURTHER RESERVATIONS ON THE GOVERNMENT'S REAL COMMITMENT TO A PROJECT OF THIS MAGNITUDE, DESPITE PRONOUNCEMENTS OF HIS MAJESTY. IT MAY BE SEVERAL YEARS BEFORE THE GOVERNMENT AND OTHER DONORS ARE WILLING TO COMMIT RESOURCES TO SOLVE THE PROBLEMS OF ENVIRONMENTAL DEGRADATION. WHILE THERE IS NO DOUBT OF THE NEED FOR RESOURCE CONSERVATION IN NEPAL, WE BELIEVE A SIGNIFICANTLY MORE MODEST PROGRAM WOULD BE MORE IN KEEPING WITH HMG'S OWN CURRENT PRIORITIES AND WOULD ALLOW MORE OPPORTUNITY FOR NEEDED STUDY OF THE EXTENSIVE PROBLEMS IN THIS AREA BEFORE COMMITTING A VERY LARGE AMOUNT OF MONEY TO IT.

8. WE HAVE GIVEN CONSIDERABLE ATTENTION TO THE PROPOSAL FOR RURAL AREA DEVELOPMENT IN THE RAPTI ZONE (FOR WHICH \$11.3 MILLION IS PROJECTED IN FY-79), HAVE DISCUSSED IT EXTENSIVELY WITH AID AND THE AID SURVEY TEAM, AND CONTINUE TO HAVE RESERVATIONS ABOUT IT. WE BELIEVE THERE ARE REAL LIMITS ON LOCAL CAPACITY TO SUSTAIN A COMPREHENSIVE AREA DEVELOPMENT EFFORT. THE FINANCE MINISTER TOLD ME RECENTLY HE BELIEVED RURAL DEVELOPMENT ACTIVITY IN NEPAL MUST BE "MODEST AND SELF SUSTAINING" AND SHOULD NOT RAISE EXPECTATIONS AMONG THE PEOPLE WHICH HMG CANNOT FULFILL. IN ADDITION, THERE MAY BE SERIOUS PROBLEMS FOR HMG ARISING FROM A HEAVY CONCENTRATION OF EXPENDITURES IN A LIMITED AREA. WE ALSO SHARE THE VIEW AS EXPRESSED BY THZFAID SURVEY TEAM THAT EXPERIENCE IN ONE AREA MAY NOT BE EASILY DUPLICATED NOR SERVE AS AN EXAMPLE FOR OTHER AREAS IN A COUNTRY AS DIVERSE AS NEPAL. FURTHERMORE, WE SEE SOME POTENTIAL DRAWBACKS IN THE IDENTIFICATION OF ONE AREA AS AN "AMERICAN AREA". WE ALSO SERIOUSLY QUESTION WHETHER DEVELOPMENT ACTIVITY IN THE TERAI/INNER TERAI OF RAPTI ZONE, WHICH WOULD PROBABLY BE THE EASIEST STARTING POINT FOR DEVELOPMENT ACTIVITY IN THE AREA, WOULD AUTOMATICALLY HAVE EFFECTS IN THE MIDDLE HILLS WHERE THE HEART OF THE DEVELOPMENT PROBLEM LIES. FROM OUR DISCUSSIONS WITH THEM, THE AID SURVEY TEAM APPEARED TO SHARE SEVERAL OF THESE

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RESERVATIONS. ONE OF THE ASSUMPTIONS OF THE PROJECT IS THAT THE ROAD CONNECTING THE EAST-WEST HIGHWAY TO THE DANG VALLEY WILL BE COMPLETED ON SCHEDULE. HMG HAS PUSHED THROUGH A MOTORABLE TRACK, BUT THE QUESTION OF UPGRADING THE ROAD REMAINS MOOT AND IT IS QUITE POSSIBLE THAT THE PROJECT WILL NOT BE COMPLETED BY 1979. GIVEN THESE CONCERNs WE WOULD URGE A VERY CLOSE EXAMINATION OF THIS PROPOSAL. IF, AFTER FULL CONSIDERATION IN WASHINGTON, IT IS DETERMINED THAT THERE IS MERIT IN A RURAL AREA DEVELOPMENT PROJECT, WE BELIEVE IT SHOULD BE ENTERED INTO SLOWLY, PERHAPS ALONG THE LINES OF OPTION 2F OF THE ABS WHEREBY A PILOT PROJECT WOULD BE DEVELOPED IN ONE DISTRICT OF THE ZONE, PWEHAPS ADDING A DISTRICT IN EACH OF THE

SUBSEQUENT YEARS. WE WOULD HOPE THAT SUCH AN APPROACH WOULD AVOID THE LARGE COMMITMENT OF OVER \$11 MILLION AS CURRENTLY PROPOSED FOR A PROJECT THAT SEEMS TO US TO HAVE MANY PITFALLS.

9. FINALLY, WE WISH AGAIN TO EMPHASIZE THE POLITICAL CONTEXT AND OVERALL US POLICY OBJECTIVES IN NEPAL AGAINST WHICH THE FY 79 ABS

MUST BE CONSIDERED. WE DO NOT BELIEVE THE US SHOULD OR NEED BE THE LARGEST BILATERAL DONOR, THE MORE SO GIVEN OUR LARGE MULTILATERAL CONTRIBUTIONS TO AGENCIES ALSO WORKING FOR NEPAL'S DEVELOPMENT. AS NOTED IN OUR ANNUAL POLICY AND RESOURCE ASSESSMENT (KATHMANDU 1218) "A SIGNIFICANT INCREASE OVER CURRENT AID LEVELS WOULD RAISE QUESTIONS CONCERNING NEPAL'S ABILITY--GIVEN LIMITED MANPOWER RESOURCES--OF ABSORBING LARGER PROJECTS AND COULD RAISE FALSE HOPES ABOUT THE LEVEL OF THE US POLITICAL COMMITMENT TO THE COUNTRY". WHILE SOME INCREASE IN EXPENDITURES FROM OUR CURRENT LEVELS COULD BE JUSTIFIED BY OUR REAL CONCERN ABOUT THE LEAST DEVELOPED, AN INCREASE AS SUBSTANTIAL AS THAT PROJECTED AND THE ATTENDANT REQUESTED INCREASE IN PERSONNEL DO NOT REFLECT THE LIMITED NATURE OF OUR INTERESTS IN AND COMMITMENT TO NEPAL.

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